

DEPARTMENT OF TREASURY



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The Office of State Treasurer is provided for by Article V, Section 3, of the Michigan Constitution of 1963. The State Treasurer is appointed by the governor, with the advice and consent of the senate, and serves at the pleasure of the governor.

The department was established by the Executive Organization Act of 1965, as a result of merging the operations of 6 agencies: State Treasurer, Department of Revenue, Municipal Finance Commission, Board of Tax Appeals, State Tax Commission, and Auditor General (except the state audit function). In addition, the Board of Equalization and Board of Escheats were abolished and their functions were absorbed by the new department.

Effective July 1, 1984, the Municipal Finance Commission was abolished, which transferred all powers and duties to the State Treasurer. Effective August 1991, the Michigan Tax Tribunal was transferred to the Department of Commerce (now Licensing and Regulatory Affairs) pursuant to Executive Order No. 1991-18. Effective May 1992, the Michigan Higher Education Facilities Commission and Michigan Higher Education Facilities Authority were transferred from the Department of Education to the Department of Treasury pursuant to Executive Order No. 1992-2. Effective April 8, 1995, the Michigan Higher Education Assistance Authority and Michigan Higher Education Student Loan Authority were transferred from the Department of Education to the Department of Treasury pursuant to Executive Order No. 1995-3. Effective January 1, 2000, all administrative responsibilities related to statewide educational assessments were transferred from the Department of Education to the Department of Treasury pursuant to Executive Order No. 1999-12. Effective December 21, 2003, the administration of the Michigan Educational Assessment Program (MEAP) tests was transferred to the Superintendent of Public Instruction. Effective March 4, 2010, 10 public finance authorities were consolidated into one, Michigan Finance Authority, an autonomous entity within Treasury, pursuant to Executive Order 2010-2.

The State Treasurer acts as principal advisor to the governor on tax and fiscal policy issues. The State Treasurer is the chairperson of the Michigan Education Trust and the Michigan Finance Authority. The State Treasurer serves as sole investment fiduciary to the judges, public school employees, state employees, and state police retirement funds. The State Treasurer also serves as treasurer of the retirement systems, the Legislative Retirement System, and the Mackinac Bridge Authority. The State Treasurer is also a member of the following boards, commissions, and task forces: Local Emergency Financial Assistance Loan Board, Michigan Early Stage Venture Investment Corporation, Michigan Economic Development Corporation Corporate Board, Michigan Economic Growth Authority, Michigan Judges/State Employees/State Police Retirement Boards, Michigan State Housing Development Authority, Michigan Strategic Fund, and the State Administrative Board.

Executive Office

Operational responsibilities of the department are handled by the **Executive Office**, which consists of the State Treasurer, the Chief Deputy Treasurer, Deputy Treasurers for Financial and Administrative Services, Investments, Local Government Services, State and Authority Finance, and Tax Administration. The Bureau of Executive Operations (Budget, Communications, and Legislative Affairs Divisions) and the Office of Legal Affairs are also housed in the Executive Office.

Chief Deputy Treasurer

The **Chief Deputy Treasurer** oversees all operations within the Department of Treasury. Deputy Treasurers for Financial and Administrative Services, Local Government Services, State and Authority Finance, and Tax Administration report to the Chief Deputy Treasurer, as does the Office of Legal Affairs. The Deputy Treasurer for Investments and the Director of the Bureau of Executive Operations report to the State Treasurer.

Investments

Pursuant to state law, the State Treasurer is the sole investment fiduciary and custodian for the State of Michigan Retirement Systems (SMRS), as well as other state trust and agency funds.

Total defined benefit pension assets managed as of March 31, 2013, were \$52.6 billion, making the SMRS the 18th largest defined benefit, public pension fund in the United States. The SMRS includes the Michigan Public School Employees' Retirement System, Michigan State Employees' Retirement System, Michigan State Police Retirement System, and Michigan Judges' Retirement System. The SMRS services a total of more than 522,000 members (as of September 30, 2012), which includes vested working employees and retired members.

The State Treasurer is also responsible for investing state operating and other state trust and agency funds with assets in excess of \$14.5 billion. This includes investment oversight, with advice from the Department of Technology, Management and Budget (DTMB), of the \$5.6 billion 401K and 457 plans.

The Bureau of Investments performs all investment functions and associated accounting functions on behalf of the State Treasurer. The SMRS investment portfolio is diversified and includes domestic and international stock exposure, corporate and government bonds, real estate, and alternative investments. The bureau is organized by major investment disciplines as follows: Alternative Investments Division; Short Term Fixed Income, Absolute and Real Return Division; Long-Term Fixed Income Division; Real Estate and Infrastructure Division; Quantitative Analysis Division; Defined Contribution, Trust and Agencies Division; and Stock Analysis Division. The Trust Accounting Division works directly with each division and accounts for and settles investment transactions on a daily basis. Public Act 380 of 1965 created an Investment Advisory Committee, which is charged with reviewing investments, goals, and objectives of each of the retirement funds. Members may make recommendations to the State Treasurer.

The bureau's primary goal is to invest each fund prudently, taking into account the purpose of a particular fund. Therefore, asset allocations differ between funds depending upon the type of liability structure or purpose for a particular fund.

Tax Administration

The **Tax Policy Division** helps assure consistent application of existing departmental policies, as well as identifying and developing needed new policies. Policies are usually of a tax-technical nature and relate to other revenue bureaus in the areas of Tax Compliance, Customer Contact, and Return Processing. The Tax Policy Division provides guidance pertaining to tax statutes through the drafting of Revenue Administrative Bulletins, Internal Policy Directives, and technical advice letters. The division also provides support to the Office of Legislative Affairs by providing bill language and bill analyses, when needed. It also provides support to the Attorney General staff in substantive tax litigation as it relates to their understanding and presentation of departmental tax policies.

The **Hearings Division** provides informal conferences mandated by the Revenue Act on disputed tax matters, including assessments, credit audits, and refund denials. Informal conferences are also provided for Principal Residence Exemption denials. Decisions are signed on behalf of the State Treasurer by the Division Administrator. Decisions and orders issued by the division are subject to further appeal to the Michigan Tax Tribunal or Court of Claims as provided by statute.

The **Tax Processing Bureau** is responsible for the process and review of all major Michigan tax returns and related forms. Each year, over 8 million individual and business tax returns are received and processed by the Bureau. All tax returns are reviewed for accuracy and this review may result in the issuance of refunds, requests for additional information, adjustments, or assessments as appropriate. The Bureau also administers certain licensing functions, registers taxpayers, engages in quality assurance controls and, importantly, it responds to millions of taxpayer inquiries received through correspondence, phone calls, and web-based contacts. The Tax Processing Bureau includes the following four divisions: Business Taxes Division, Income Tax Division, Special Taxes Division, and the Support Services Division.

The **Taxpayer Advocate** serves as an ombudsman within the Department of Treasury to respond to taxpayer issues that have not been resolved through the normal processes within Treasury. The office works to clarify taxpayer issues and to provide resolution to the taxpayer's concerns. The Advocate also has authority to review and grant requests for waiver of penalty within the guidelines established by the Department. The Taxpayer Advocate serves as the referral point for taxpayer issues that come to the Treasury Executive Office, the Governor's office and legislative offices. Using information gathered in the resolution of customer inquiries, the Taxpayer Advocate provides feedback to other areas of the Department in order to improve customer services.

The purpose of the **Tax Compliance Bureau** is to encourage compliance with Michigan tax statutes while concurrently providing improved customer service by effectively managing procedures under the Taxpayer Bill of Rights. The Tax Compliance Bureau combines an audit function along with a Discovery and Tax Enforcement function. The Tax Compliance Bureau is comprised of three divisions, which include Field Audit Division 1, Field Audit Division 2 and the Discovery and Tax Enforcement Division.

The Michigan Department of Treasury administers its tax programs with the recognition that most taxes are reported and paid through a voluntary compliance system, with no direct enforcement and minimal interaction between the Department and taxpayers. If unchecked, taxes not paid or underreported by noncompliant taxpayers require compliant taxpayers to make up for the shortfall.

The **Office of Tax Implementation** is responsible for implementing new taxes in coordination with the DTMB and state vendors. Additionally, the Office facilitates system modifications required as a result of legislative or year-end changes. The Office of Tax Implementation works with DTMB and state vendors to migrate the existing major taxes from the legacy tax processing systems onto a common tax processing platform.

The **Office of Revenue and Tax Analysis** (ORTA) is the forecasting, revenue analysis, and local government revenue sharing section of the Michigan Department of Treasury. ORTA advises the Governor, Lieutenant Governor, Treasurer, and State Budget Director on issues dealing with the economy, revenues, and the State's tax structure, and is responsible for preparing the official economic forecast and revenue estimates for the administration. ORTA also represents the administration at the Consensus Revenue Estimating Conferences. In addition to estimating the revenue that will be generated by the State's taxes, fees, and other revenue sources, ORTA is also responsible for estimating and analyzing the cost of the existing tax exclusions, deductions, exemptions, and credits, and the potential fiscal implications of legislatively proposed tax law changes. ORTA also administers and distributes over \$1 billion annually to local governments through the constitutional revenue sharing program, the Economic Vitality Incentive Program (EVIP), the Competitive Grant Assistance Program, Convention Facility Development Fund, Airport Parking Tax, Health and Safety Fund, and the Emergency 911 Fund.

Financial Services

Financial Services operates as the central processing point for accounting services within the Treasury Department, the centralized point for the collection of delinquent tax and state agency debt, and is, essentially, the state's bank. These services are provided by 3 offices: Accounting Services, Financial Services, and Collections.

The **Office of Accounting Services** coordinates and oversees the department's accounting function. This includes the processing of vendor payments, direct vouchers, inter-account bills, travel, interfaces, and inventory and asset control. The office reconciles the state's bank statement activity with the state's accounting system. Additionally, it fulfills the department's central control agency relationship with the Michigan Administrative Information Network (MAIN) within the DTMB. It is also responsible for the issuance of payments in lieu of taxes for the Department of Natural Resources (DNR) owned land and qualifying senior citizen cooperative housing tax exempt facilities.

The **Office of Financial Services** serves as the central service agency to all state agencies for the administration of all statewide banking activity, related banking contracts, cash receipting and disbursements. This office administers the receipting of a majority of state and federal funds, with more than \$35 billion received via Electronic Funds Transfer out of the \$48 billion received annually.

The **Office of Collections** is the centralized collection agency for all delinquent assessed taxes administered by the department and debts owed to state agencies, including some universities and courts. The office promotes compliance with Michigan tax laws, which leads to fair and equitable taxation for citizens. The office is also responsible for administering the service of garnishments and legal orders served on the State Treasurer.

Administrative Services

The Administrative Services Bureau provides department-wide support services for all programs in the department involving: Budget, Facility Operations, Forms and Document Services, Mail Operations, Privacy and Security, Purchasing, and Unclaimed Property.

The Budget Division develops, controls, and monitors all phases of the budget process for the Department of Treasury. This involves preparation of the annual budget request; presentation of the executive budget recommendation; serving as liaison with the State Budget Office, legislative fiscal staff, and appropriation committees on budget enactment; and monitoring/controlling department program expenditures.

The Departmental Services Division includes the Forms and Document Services Section, Facility and Mail Operations Section and the Purchasing Section.

Forms and Document Services administers the department's centralized forms and documentation programs and the department's records management program for storage and destruction of records. Key responsibilities include developing and implementing department-wide standards for forms and documentation; designing, editing, and coordinating the printing of departmental forms and publications; and administering contracts involving the production and distribution of State Treasurer warrants, motor carrier decals, and principal business and individual income tax forms and instructions. Staff also coordinates the review and approval of tax forms supported by more than 25 software developer companies for the major tax areas.

Facility and Mail Operations manages the processing and distribution of 2.8 million pieces of inbound mail annually; additionally, they provide the department with certified and overnight mail services and confidential shred and salvage pick-ups. They coordinate office space redesign and modifications, worksite adjustments and manage the provision of communication services.

Purchasing provides procurement, contracting, and contract administration services for the department and is responsible for the annual issuance of approximately 300 purchase orders, 15 major contracts, 150 procurement card purchases and 1,500 office supply orders. As of July 8, 2013, \$570 million in active contracts have been issued through Treasury Purchasing; furthermore, these contracts assist the department in more than \$20 billion of revenue generation activities.

The Office of Privacy and Security establishes a department-wide approach to ensure the privacy, confidentiality, and integrity of information collected, used, and retained by the Department through prevention, detection, and enforcement practices in compliance with applicable laws, regulations, standards and other privacy and security industry best practices. It is responsible for administering the disclosure provisions of the Revenue Act found in section MCL 205.28(1)(f). It maintains liaison relationships with external organizations such as the Federation of Tax Administrators, Internal Revenue Service, Homeland Security, U.S. Customs, local cities, counties and other state agencies and assists Treasury divisions in tax compliance efforts.

The Unclaimed Property Division assumes custody of abandoned and unclaimed property on behalf of the state of Michigan, preserves that property in trust for the owners or their heirs and returns that property to the rightful owner. The division currently holds more than 9.5 million accounts totaling over \$1.2 billion. In 2009, the division received over \$114 million in escheated property, established over 71,000 claims, and returned over \$72 million to rightful owners. In 2009, \$37 million was transferred to the state's general fund.

Bureau of State and Authority Finance

The bureau coordinates the issuance of state and authority bonds and notes, including State General Obligation issues, assists the State Treasurer in managing the State's Common Cash and Cash Flow Activity, compliance with federal tax laws, and SEC disclosure requirements. The bureau performs fiscal agent and trust services for various bond issues and public finance programs, carries out oversight of compliance with the Federal Cash Management Improvement Act (CMIA) requirements for drawing federal funds, and administers the state's School Bond Qualification and Loan Program. Also, the bureau administers programs related to certain grant, student loan, and prepaid tuition programs.

The bureau administers **student loans** under the Federal Family Education Loan Program (FFELP) (new loans discontinued as of July 1, 2010) and a state-funded Michigan Alternative Student Loan (MI-LOAN) Program. The FFELP includes the Subsidized Federal Stafford Loan Program, the Unsubsidized Federal Stafford Loan Program, the Federal PLUS Loan Program, the Federal Consolidation Loan Program, and the Federal Supplemental Loan for Students Loan Program. The MI-LOAN Program ceased making new loans as of February 15, 2008.

FFELP loans are guaranteed by certain federally authorized guaranty agencies, including the Michigan Guaranty Agency (MGA), which the bureau is also responsible for administering. The MGA also acts as guarantor for other FFELP loans made by certain student loan lenders throughout Michigan.

In addition, the bureau administers six state and two federally funded **scholarship and grant** programs awarded to students at Michigan's postsecondary educational institutions.

The **Michigan Education Trust** (MET) was created by Public Act 316 of 1986 to provide a method for families to pre-pay a student's future Michigan college tuition costs. The trust offers contracts to purchasers, collects and invests the funds, and pays out tuition to colleges and universities when enrollees attend college.

The **Michigan Education Savings Program** (MESP) was created by Public Act 161 of 2000 to provide families with a flexible way to save for future education expenses through a choice of investment options and is also administered by the State Treasurer. The Michigan 529 Advisor Plan (MAP) provides families with a flexible way to save for future education expenses through an advisor-sold program.

The **Michigan Finance Authority** (MFA) was established by Executive Order 2010-2 to further improve efficiency in state government by consolidating 10 public finance authorities into one. The MFA offers effective, low-cost financing to public and private entities that provide essential services to the citizens of Michigan. These include municipalities; healthcare providers; public, private, and charter schools; and higher education loans to college students.

The **State Building Authority** (SBA) provides the capital financing to acquire, construct, furnish, equip, and/or renovate buildings for the use of the state, including public universities and community colleges pursuant to Act 183 of 1964. Since its creation, SBA has financed approximately 300 projects, approaching \$5.1 billion in construction costs. SBA bond issues permit the construction of needed capital outlay projects, which otherwise might be delayed or canceled due to state fiscal constraints, by spreading their costs over a portion of the project's useful life. In addition to capital outlay financing, SBA houses non-employee risk management functions for the state. It provides state agencies with commercial property, general liability, aviation, and builder's risk insurance, as well as other needed insurance coverage. The SBA also administers the state's Vehicle Self-Insurance Fund. The Vehicle Self-Insurance Fund covers liabilities arising from accidents involving the state vehicle fleet which numbers in excess of 10,000 vehicles.

Bureau of Local Government Services

The Bureau of Local Government Services is responsible for the administration and enforcement of state laws that implement provisions of the Michigan Constitution requiring taxation of real and tangible personal property; a uniform system of accounting and auditing for units of local government; and the preservation of the credit of the state. The bureau is responsible for the administration of Public Act 436 of 2012, the Local Financial Stability and Choice Act.

The **Assessment and Certification Division** provides staff services for the State Tax Commission and assistance to local and county assessing officials. The State Tax Commission, which was created by 1927 PA 360, establishes the state equalized value for each class of property for each county total; prepares assessment rolls for state assessed public utilities; approves applications for exemptions for air and water pollution control facilities and neighborhood enterprise zones and for industrial property abatements; adds omitted property to local assessment rolls and corrects erroneous personal property statements under MCL 211.154; arbitrates petitions for change of classification; certifies valuation and assessment of lands purchased by the DNR; assumes superintending control over uncertified local assessment rolls; and provides general supervision of all assessing officials. The commission also provides training, examinations, and certification of assessing officials and receives and acts on revocation petitions filed against such officials, duties that were transferred to the commission by a 2009 executive reorganization order that abolished the former State Assessors Board.

The **Local Audit and Finance Division** issues guidance and monitors statutory compliance of local units of government. Staff members perform financial audits, single audits, legal compliance audits, and internal control reviews of local units of government when requested or at the discretion of the department. Through the review of qualifying statements and prior approval applications, the division approves or denies the issuance of debt by units of local government.

The **Office of Fiscal Responsibility** provides local units of government with state-wide technical expertise and policy recommendations to ensure proper implementation of state and federal laws,

regulations, requirements, accounting standards, and financial controls. The OFR assists local government elected and appointed officials to establish protocol and develop strategies that will assist them in retaining strong fiscal health, avoiding financial stress or crisis, and helps prevent local units of government in financial distress from receiving an Emergency Manager, Consent Agreement, Neutral Condition (mediation), or Bankruptcy.

The **Property Services Division** administers the state's tax reversion process and conducts the foreclosure process for 12 counties that have opted out of handling the process under Public Act 123 of 1999. The division also receives, reviews, and prepares, for State Tax Commission approval, applications for various tax exemption programs, such as the Industrial Facilities Tax, Air and Water Pollution Control, Neighborhood Enterprise Zone, Obsolete Property Rehabilitation, and New Personal Property.

Bureau of State Lottery

The Bureau of State Lottery, an autonomous entity within the Department of Treasury, was created by Public Act 239 of 1972. One-hundred percent of profits from the Lottery go to the state School Aid Fund.

The Michigan Lottery reported annual sales of \$2.41 billion in fiscal year 2012, and generated \$778.4 million in net revenue for the state School Aid Fund. Retailers received annual commissions of \$172.1 million, while Michigan Lottery players collected prizes worth \$1.39 billion. The Bureau of State Lottery is also responsible for the licensing and regulation of organizations operating bingo games, raffles, and charity game tickets.

Michigan Gaming Control Board

In November 1996, Michigan voters approved Proposal E, effectively authorizing three licensed casinos to be built in the City of Detroit. Proposal E was adopted into law as The Michigan Gaming Control and Revenue Act (Initiated Law 1 of 1996). The Michigan Gaming Control Board (MGCB) was created by Public Act 69 of 1997, and is responsible for implementing, administering, and enforcing the provisions of the Initiated Law related to licensing, regulating, and collecting taxes and fees from the three authorized Detroit casinos. In 2012, the combined 8.1% state wagering taxes paid by the three Detroit casinos and deposited into the School Aid Fund totaled \$114.7 million. MGCB is also responsible for the licensing and regulation of Michigan horse racing and charitable gaming millionaire party events, locations, and suppliers along with providing oversight of the Tribal-State Compacts for the 23 Tribal casinos throughout Michigan.

